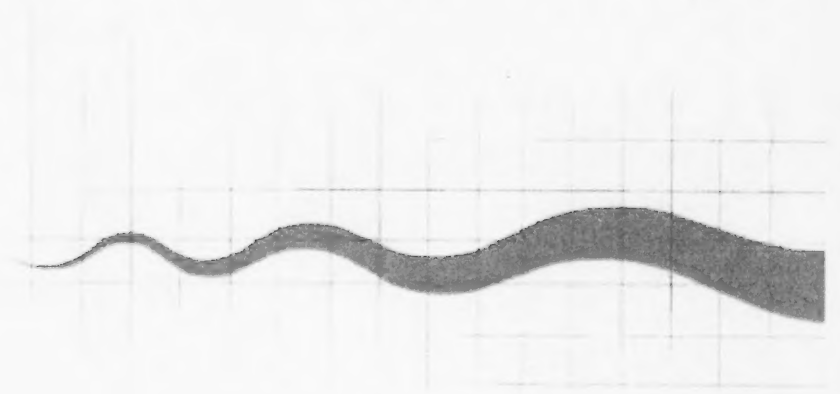


**POWERING YUKON'S FUTURE;
PLANNING IT TODAY**

YUKON ENERGY CORPORATION
2006 ANNUAL REPORT



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YUKON ENERGY IS COMMITTED TO PROVIDING OUR CUSTOMERS WITH EXCEPTIONAL VALUE IN RATES, SERVICE, RELIABILITY AND PUBLIC SAFETY. THIS ANNUAL REPORT IS A TRIBUTE TO ALL OUR CUSTOMERS AND OUR HIGHLY PROFESSIONAL AND DEDICATED STAFF.

MESSAGE FROM THE PRESIDENT

A primary focus for Yukon Energy this year was our 20-year Resource Plan, which addresses our major electrical generation and transmission needs from 2006 to 2025. Yukon Energy filed the plan with the Yukon Utilities Board (YUB) in June and oral public hearings took place in November. The YUB made its recommendations to the Yukon Cabinet in January 2007, giving general support for the plan.

The resource plan outlines a number of short-term projects to meet electrical needs on the Whitehorse-Aishihik-Faro grid to 2012. The projects include a third turbine for our Aishihik plant, the construction of a Carmacks-Stewart Transmission Line and the refurbishing or replacement of our oldest diesel generators.

It's almost certain that one new mine (Minto) and possibly a second one (Western Copper) will begin operating in the Central Yukon within the next couple of years. In fact the Minto mine expects to be in production by the second quarter of 2007.

Because of this, Yukon Energy devoted a great deal of effort in 2006 to moving ahead with the planning and permitting work necessary for a new transmission line from Carmacks to Stewart Crossing. This would allow us to not only supply the Minto and Western Copper mines with hydro power, but also to connect our two power grids, providing increased flexibility and reliability to our electrical system.

In addition to filing detailed information about this project with the YUB, Yukon Energy made a submission in October to the Yukon Environmental and Socio-Economic Assessment Board (YESAB). We also carried out extensive consultations with the Northern Tutchone First Nations, and concluded a Memorandum of Understanding that deals with, among other things, the selected route for the proposed transmission line, economic opportunities and benefits that First Nations would receive as a result of the line's construction, and the consultation that would take place throughout the planning and building of the line.

Yukon Energy underwent a strategic planning exercise in 2006 to identify our goals and objectives for the next few years, and to pinpoint strategies aimed at meeting those goals and objectives. As well, we re-organized ourselves, to improve the way we do things. As a result, a number of our employees took on new roles or reporting lines, and a new apprenticeship program for powerline technicians was born.

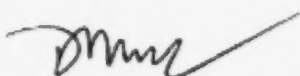
In terms of major capital projects, Yukon Energy refurbished the second of our Aishihik hydro units. As well as being mechanically 'renewed', the second generator now has an electrical capacity of approximately 10 percent more than it did before the overhaul.

In January, a highly unusual set of circumstances led to a major power outage of several hours in much of the Southern Yukon. Our staff worked incredibly hard to restore electricity, and I thank customers for their patience during what I know was a difficult time for them. The outage originated with a feeder cable at our Aishihik plant. We have since replaced all nine of the facility's cables.

While our primary responsibility is to provide safe, reliable and cost-effective electricity to Yukoners, we have a strong connection to the communities in which we live and work. Yukon Energy offers financial assistance by way of cash donations to a wide variety of non-profit groups based in the Yukon. In 2006 a committee of Yukon Energy staff reviewed dozens of requests from local organizations and granted almost \$65,000 in the area of sports and recreation, culture and the arts, health and social services, and education. Yukon Energy's Corporate Contributions Program is a significant source of assistance for many Yukon groups and is clearly improving the quality of community life.

Also this year, Yukon Energy awarded scholarships to six deserving post-secondary students in 2006, and we completed the second full year of an apprenticeship and training benefits funding agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nations, as part of an agreement made during the construction of the Mayo-Dawson transmission line.

I would like to thank our customers for their business and continued support. Thank you as well to the dedicated staff at Yukon Energy, who worked hard once again this year to provide Yukoners with safe, reliable, least-cost service.



David Morrison
President and CEO

OVERVIEW

Established in 1987, Yukon Energy is a publicly-owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,700 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 112 megawatts of power. Seventy five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and five megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the Business Corporations Act, the Public Utilities Act and the Yukon Waters Act.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

VISION, MISSION AND VALUES

Vision

Yukon Energy is recognized as one of the best managed utilities in Canada, meeting the needs of our customers with a sustainable, reliable, cost-effective supply of electricity, while maintaining a passion for safety and environmental stewardship in all our activities.

Mission

To strengthen and grow our core businesses of generation, transmission and distribution through:

- Concluding a purchase power agreement with Minto
- Putting in place an effective corporate governance process and securing approval and financing for our near-term resource plan projects
- Improving organizational capabilities – planning and project management, streamlined work processes and improved communications
- Strengthening our human resources through an emphasis on employee development, improving teamwork and the implementation of strategic workforce initiatives

Values

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability

**FUTURE ENGINEER?
IT'S IN OUR PLANS**



OUR EMPLOYEES

Yukon Energy employs approximately 70 highly skilled and dedicated people in Whitehorse, Faro, Mayo and Dawson City.

This year, we involved staff in a strategic planning exercise to identify our key corporate goals and objectives for the next few years, and to pinpoint strategies aimed at meeting those goals and objectives. The five major areas of focus were generation and transmission, our staff, operational efficiency, business process improvement and governance.

As is the case elsewhere in Canada and beyond, the aging baby boomer population will mean a large percentage of Yukon Energy workers (40 percent) will be eligible for retirement within the next five years; 50 percent within the next 10 years. When they leave, so will their accumulated knowledge and skills. Recognizing this, Yukon Energy has embarked on a number of employee workforce initiatives to address this. For example: we plan to hire a documentation specialist in 2007. This person will document operational and safe work procedures.

With the help of a consulting firm, we carried out personal interviews with 45 (64 percent) of our staff to gather their input and insights, and to find out what would entice them to stay with the company longer. We will now compile the information they provided and act on the findings of the survey.

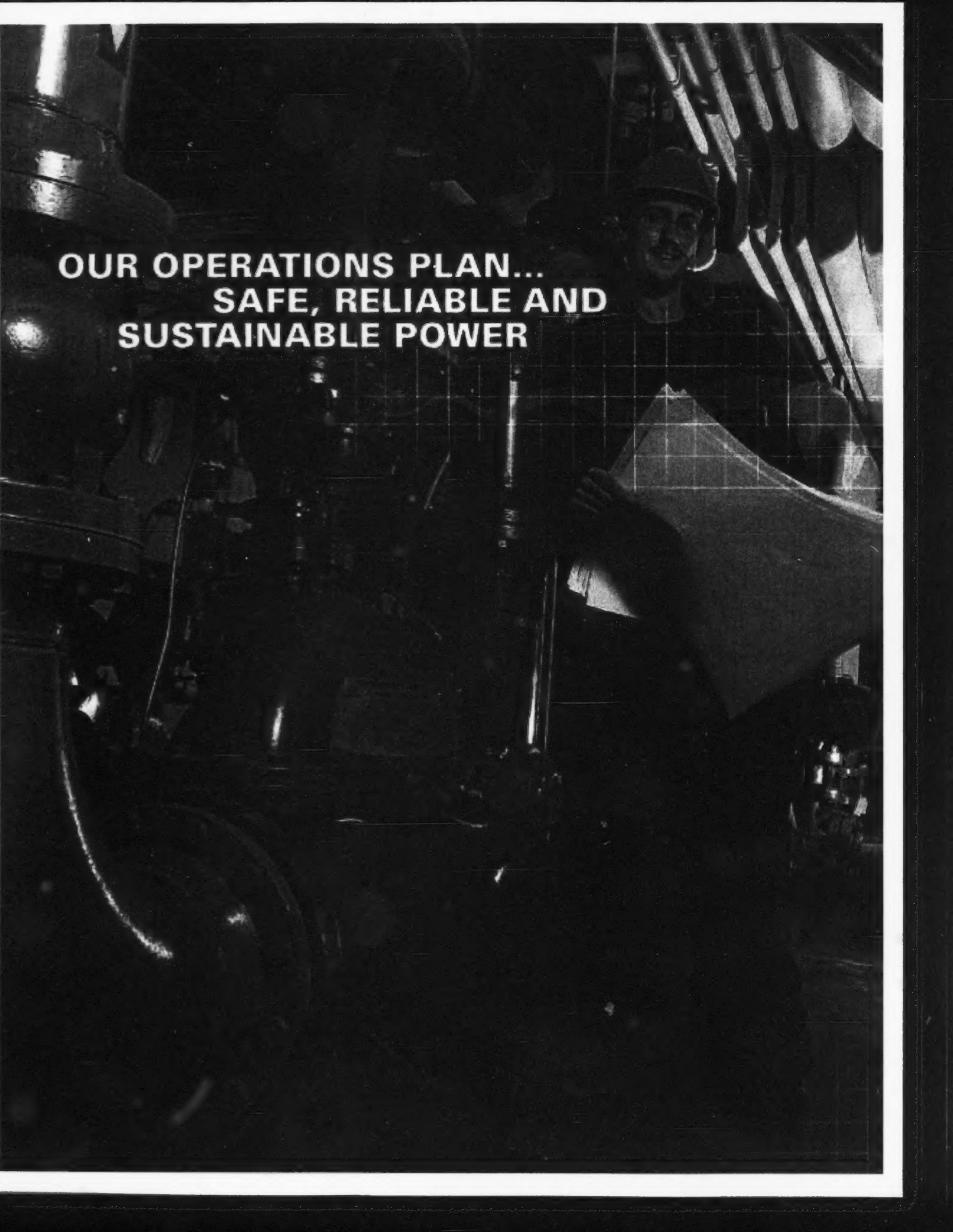
A third part of our workforce strategy is to create various apprenticeship programs. In 2006 an apprentice mechanic position was created and in 2007 three apprentice powerline technicians will join our team.

Along with attracting apprentices, we hope that a new recruitment DVD produced this year will encourage other skilled professionals to consider Yukon Energy as a potential employer. The DVD will be shown at job fairs, distributed to high schools and colleges, and given to 'head hunters'. It can be found on Yukon Energy's web site at www.yukonenergy.ca.

This year saw some changes at the senior management and board level. Ed Mollard became our new Chief Financial Officer, and Paul Birkel and Patrick James replaced outgoing board members Fred Blanchard and Carl Charlie.

It is important to Yukon Energy that we celebrate the achievements of our employees. We would like to congratulate our 10 employees who received Long Service Awards this year.

35 years	Ed Chaplin
20 years	Ken Sawyer
15 years	Darrell Johnson
10 years	Attila Janits
5 years	Wendy Saboe
	Shelley Dixon
	Ed Mollard
	Stephen Milner
	Jim Petelski
	Clint Kelland

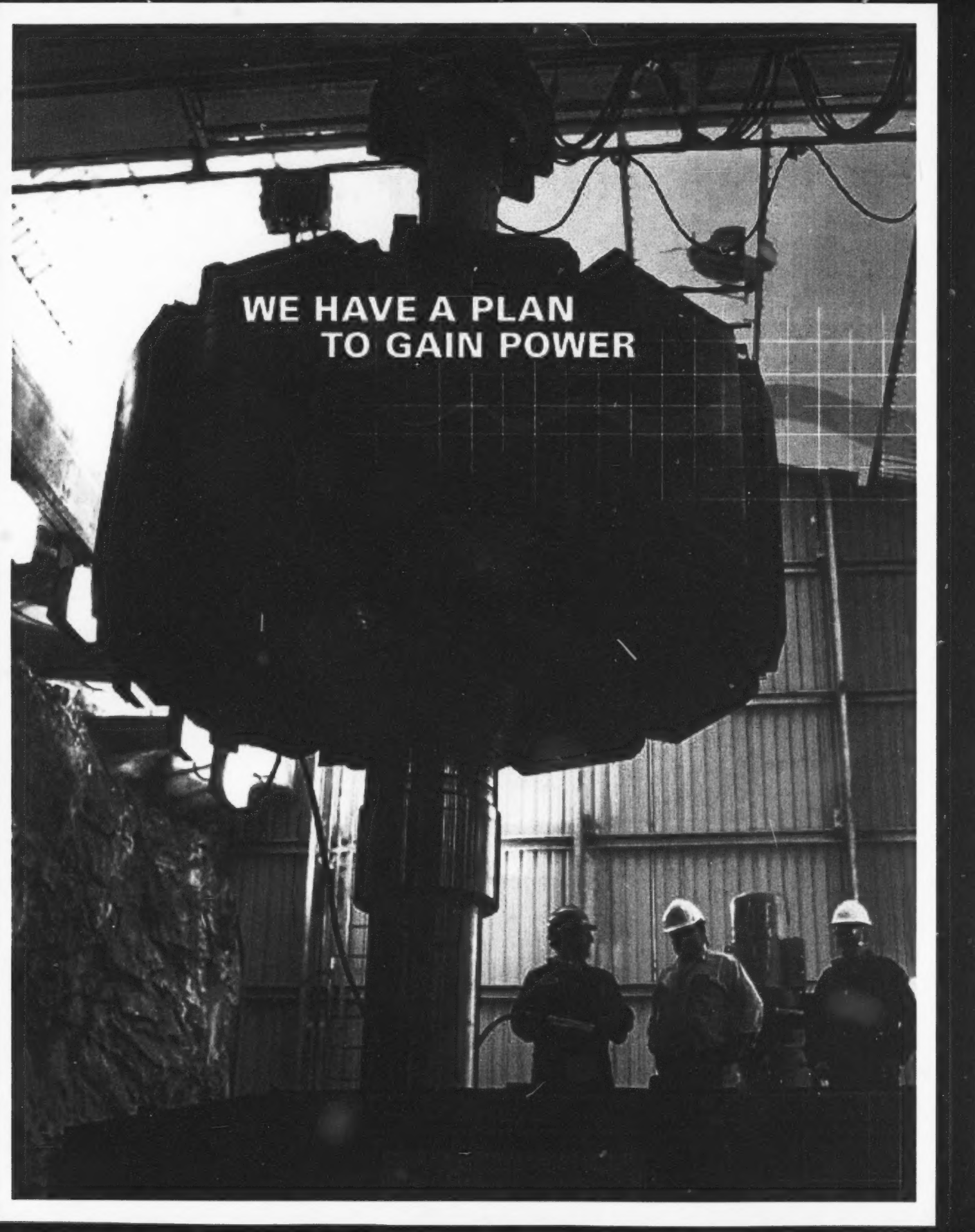


**OUR OPERATIONS PLAN...
SAFE, RELIABLE AND
SUSTAINABLE POWER**

SUMMARY OF UTILITY OPERATIONS

	2006	2005	2004	2003	2002	2001
Generating Capacity (in MW)						
Hydro	75	75	75	75	75	75
Diesel	36	36	36	40	40	40
Wind	1	1	1	1	1	1
Total	112	112	112	116	116	116
Peak Demand (in MW)						
WAF System	61	56	57	51	47	51
Mayo	5	4	4	5	3	3
Dawson	0	0	0	3	3	3
Total	66	60	61	59	53	57
Generation (in GWh)						
Whitehorse Rapids	219	202	206	208	169	141
Aishihik	81	81	71	61	86	107
Mayo	27	25	24	13	7	8
Wind	1	1	0	1	1	1
WAF Diesel	1	0	0	0	1	0
Other Diesel	0	0	1	11	15	15
Total	329	309	302	294	279	272
Electric Sales (in \$000)						
Residential	1,456	1,397	1,395	1,370	1,359	1,288
General Service	2,645	2,838	2,216	2,104	2,094	1,963
Industrial	—	—	20	36	74	129
Wholesale	22,127	20,925	20,773	20,232	19,929	18,576
Secondary Sales	917	767	369	315	180	110
Other	383	371	131	142	150	176
Total	27,528	26,298	24,904	24,199	23,786	22,242
Electric Sales (MWh)						
Residential	10,665	10,169	10,199	10,001	9,662	9,564
General Service	17,037	18,438	14,016	13,375	12,828	12,547
Industrial	—	—	247	452	884	2,128
Wholesale	251,861	237,419	235,982	229,971	220,927	217,365
Secondary Sales	22,185	18,933	16,517	13,621	8,397	5,805
Total	301,748	284,958	276,961	267,420	252,698	247,409
Cents Per kWh						
Residential	13.66	13.74	13.68	13.70	14.07	13.46
General Service	15.52	15.3	15.81	15.73	16.32	15.64
Industrial	—	—	8.04	8.05	8.39	6.07
Wholesale	8.79	8.81	8.80	8.80	9.02	8.55
Secondary Sales	4.13	4.05	2.23	2.31	2.14	1.89

FORMER YUKON ENERGY SCHOLARSHIP RECIPIENT CRAIG CHURCH
 NOW WORKS FOR THE ENERGY COMPANY AS AN ENGINEER IN TRAINING.
 PHOTO: WWW.ARCHBOULD.COM



**WE HAVE A PLAN
TO GAIN POWER**

KEY ACTIVITIES

Electricity Rates/Subsidy

Yukon Energy was once again able to avoid increasing our firm rates in 2006. This is the tenth consecutive year that firm rates have remained stable.

The Rate Stabilization Fund is a government subsidy provided to non-government residential, commercial and municipal customers. It was implemented in 1998 after the shutdown of the Faro mine to protect customers from significant bill increases that would have resulted from that shutdown.

Initially, the Yukon government set aside \$10 million for the program. Over the years, the cost of the program has grown to more than \$29 million and is now being funded by our parent company the Yukon Development Corporation. The cost of the Rate Stabilization Fund in 2006 was more than \$4,850,000. The Yukon government will phase out the fund by July 1, 2008, focussing on energy conservation instead of subsidization.

Twenty Year Resource Plan

The Yukon Utilities Board (YUB) is the quasi-legal body that regulates utilities in the territory. In June of this year, Yukon Energy filed with the YUB a 20 Year Resource Plan, which addresses our major electrical generation and transmission needs from 2006 to 2025. The Utilities Board held oral public hearings in November and made its recommendations to the Yukon Cabinet in January 2007, giving general support for the plan.

In addition to the YUB filing, Yukon Energy held community meetings around the Yukon to inform the public of our resource plan and to get their input.

The resource plan provides background information on the Yukon's power systems and gives an overview of what we expect our near-term and longer-term requirements will be. It takes into account a number of industrial development scenarios as well as new capacity criteria recently adopted by Yukon Energy to better protect customers from outages. It also outlines a number of short-term projects to meet electrical needs on the Whitehorse-Aishihik-Faro grid to 2012. The projects include a third turbine for our Aishihik plant, the construction of a Carmacks-Stewart Transmission Line and the refurbishing or replacement of our oldest diesel generators. A fourth project involving fall and winter storage on Marsh Lake was dropped from the plan after it became apparent that the initiative would not be licensed in the near term because of local residents' concerns about shoreline erosion and high fall water level impacts in low-lying areas.

Carmacks-Stewart Transmission Line

It's almost certain that one new mine (Minto) and possibly a second one (Western Copper) will begin operating in the Central Yukon within the next couple of years. The Minto mine expects to be in production by the second quarter of 2007. Western Copper is going through the permitting stage and hopes to be operating as early as 2008.

Because of this, Yukon Energy devoted a great deal of effort in 2006 to moving ahead with the planning and permitting work necessary for a new transmission line from Carmacks to Stewart Crossing. This would allow us to not only supply the Minto and Western Copper mines with hydro power, but also to connect our two power grids, providing more flexibility and reliability of our electrical system.

Yukon Energy filed detailed information about the Carmacks to Stewart project with the Yukon Utilities Board (YUB), including a Term Sheet for a Power Purchase Agreement with the Minto mine. We expect to finalize the Purchase Agreement with Minto early in 2007. Once we do, the agreement will be given to the YUB for review.

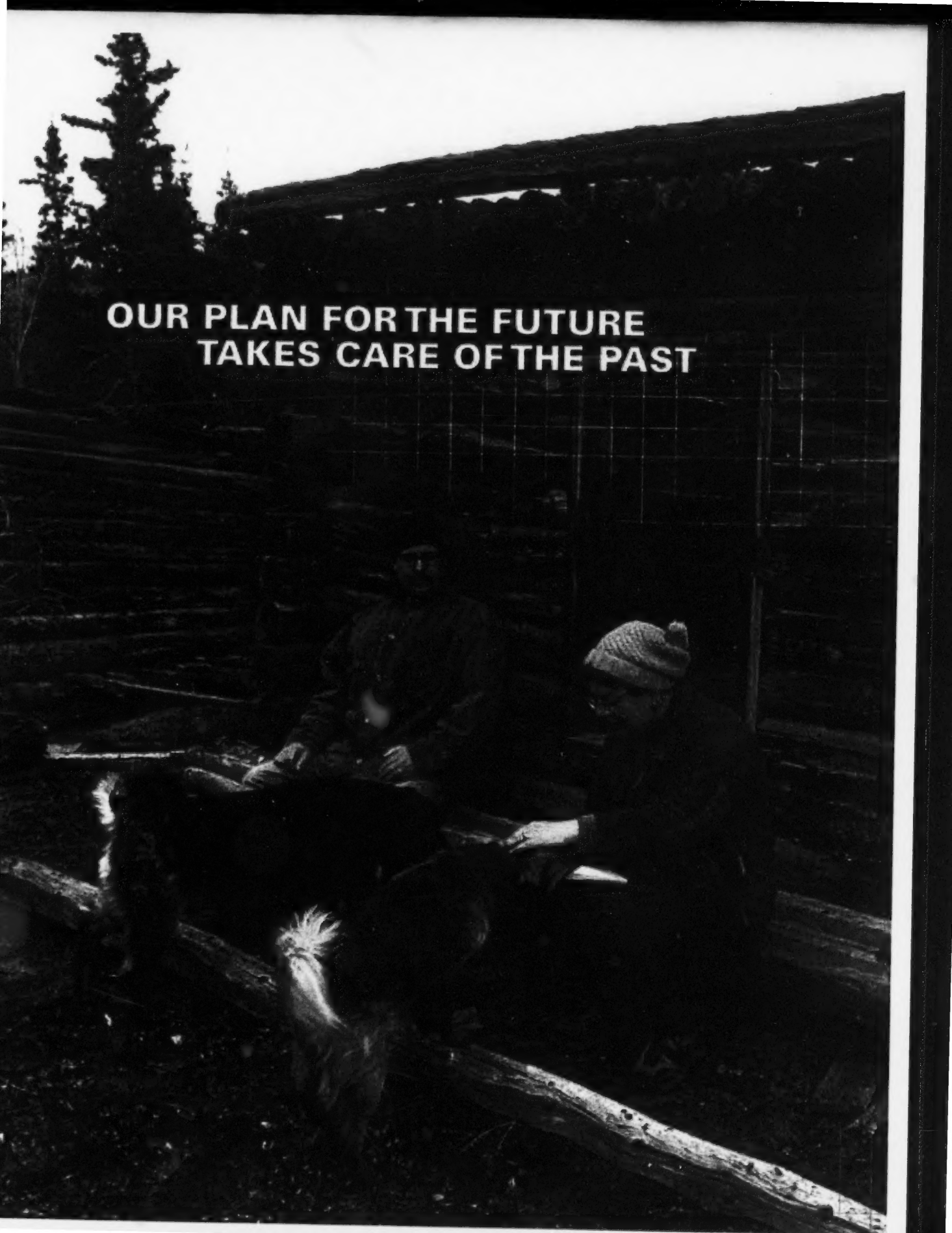
In October, Yukon Energy made a submission on the Carmacks to Stewart project to the Yukon Environmental and Socio-Economic Assessment Board (YESAB). YESAB's recommendations are expected next summer.

We also carried out extensive consultations with the Northern Tutchone First Nations, reaching agreement with them on a selected route for the proposed transmission line. We will continue to work with the First Nations on other related agreements, including land use and socio-economic benefits for their members.

This project will only go ahead on the recommendation of the Yukon Utilities Board. All environmental permits must be obtained before the transmission line is constructed. As well, this project will only move forward if Yukon Energy can guarantee there will be no adverse impact on ratepayers.

Mayo-Dawson Transmission Line

The Mayo to Dawson City transmission line, which has operated since the fall of 2003, involved building a 232 kilometre long transmission line and related infrastructure to connect the City of Dawson to the Mayo hydroelectric station. It has allowed Yukon Energy to supply Dawson with clean surplus hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced greenhouse gas by 10,000 tonnes a year. For the second full year, Yukon Energy fulfilled its training agreements with the First Nation of Nacho Nyak Dun and the Tr'ondëk



**OUR PLAN FOR THE FUTURE
TAKES CARE OF THE PAST**

Hwëch'in First Nation, as part of the Mayo to Dawson Transmission Line Benefits Agreement. Through this agreement, we provide each of the two First Nations up to \$15,000 a year for apprenticeship and training opportunities. The agreement is for 20 years with an option to renew for a further five years. We believe this is going a long way in helping the Tr'ondëk Hwëch'in and Nacho Nyak Dun achieve their training needs and is assisting members of the two First Nations to find meaningful employment.

Aishihik Generator Refurbishing

Over the last few years, Yukon Energy has allotted money to overhaul one hydro generator each year. In 2006 we spent about \$1.3 million to refurbish the second of our two Aishihik hydro turbines. As part of the electrical re-wind, the generator's capacity increased by about 10 percent.

January Power Outage

In January of this year, a failed feeder cable at Yukon Energy's Aishihik facility caused a cascading and unusual series of events that led to a power outage of several hours in the Southern Yukon. We have since replaced all nine of Aishihik's feeder cables.

Aishihik Heritage Project

Yukon Energy is obligated to carry out certain activities to fulfill our water licenses. In 2006 we reached agreement with the Champagne and Aishihik First Nations on the educational, interpretive and legacy projects to be completed under a heritage mitigation plan for the Aishihik area. The purpose of the projects is to mitigate any potential impacts of our Aishihik generating station on 32 specific heritage sites in the area.

Secondary Sales

Currently, Yukon Energy has the ability to produce more hydro-generated electricity than it needs for its customers. To take advantage of the economic and environmental benefits of this surplus power, the Corporation developed a Secondary Sales Program. This program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive. However, there are some stipulations: the service is limited and is fully interruptible, and the

businesses' existing heating systems must be maintained and fully operational so that they can be re-activated on 24 hours notice. A second electrically fired heating system must be added in order to utilize the secondary sales electricity as a heating source. The business must also be located in an area that is served by hydro-generated power.

In 2006 secondary energy sales increased by 19.5 percent from 2005, accounting for three percent of Yukon Energy's total energy sales.

Improvements to Internal Processes

This year Yukon Energy continued the initiative started in 2005 to select and implement a new customer billing system. Currently we outsource our customer billing services from Yukon Electrical Company Limited (YECL). However we expect the YECL system will be replaced within the next year. We are in the process of determining whether to continue using YECL for this service, use another company, or do customer billing in-house.

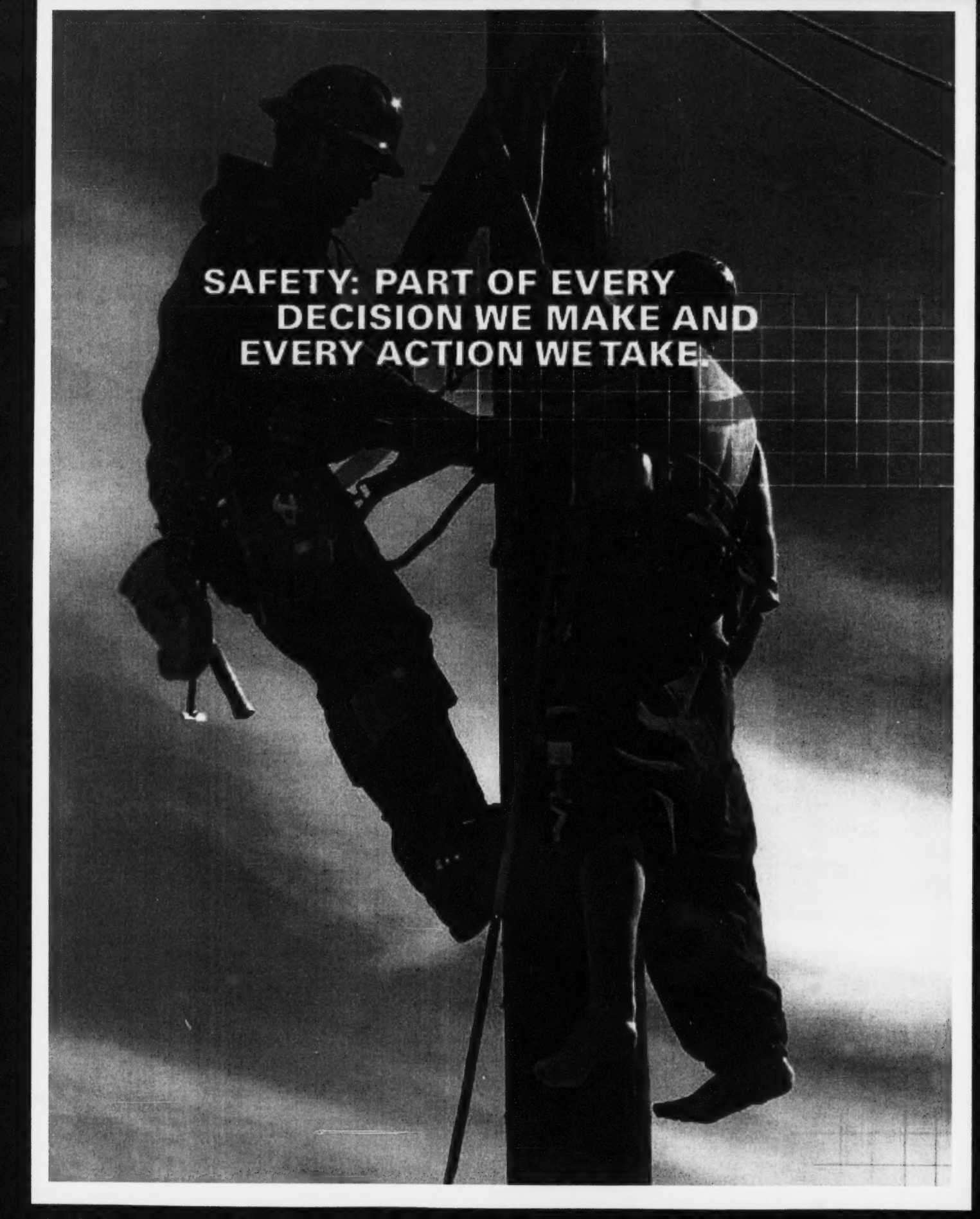
We are committed to a fair, transparent process for the purchase of goods and services made on behalf of the Corporation. In 2006 we developed and maintained a pre-qualified list of vendors which we have posted on our web site. We have also listed Yukon Energy's awarded contracts on our site.

Another on-going project in 2006 was the development of a comprehensive records management system. A Records Management Advisor was contracted to help develop policies and procedures, and assist in organizing our corporate records and library.

In 2005 Yukon Energy drew up a five year strategic plan for our information and communications systems, to ensure we have the necessary tools to run our corporation cost-effectively. Over the last year we have implemented some of the most critical areas identified in the plan. This included upgrading our network security systems and implementing an email archiving system.

Legal Issues

In 2006 we continued the difficult work of trying to resolve two disputes with the federal government, concerning the removal of some contaminated soil at our Whitehorse property, and with respect to costs incurred to renew our Aishihik water license. As well, we worked to resolve a dispute with Chant Construction regarding the Mayo-Dawson transmission line. In each case progress is slow, but we remain hopeful that these issues will be dealt with in the coming months.



**SAFETY: PART OF EVERY
DECISION WE MAKE AND
EVERY ACTION WE TAKE.**

HEALTH AND SAFETY

Public Safety Campaigns

Yukon Energy's Whitehorse Rapids hydro dam is located within city limits and in the heart of a popular recreational area, used by runners, hikers, kayakers and dog walkers. Because of this, public safety is a priority for us. In 2006, as in previous years, we mounted a media campaign warning people of the dangers of being near a hydro dam.

A second campaign, which ran in the fall, provided information to the public regarding what to do in the event of an extended winter power outage. Fridge magnets carrying this information were sent to every Yukon household.

Employee Safety

Yukon Energy is committed to providing our employees with a safe and healthy workplace. To raise safety awareness among staff, we have implemented a safety strategy that involves educating our employees through the use of guest speakers, newsletters and posters.

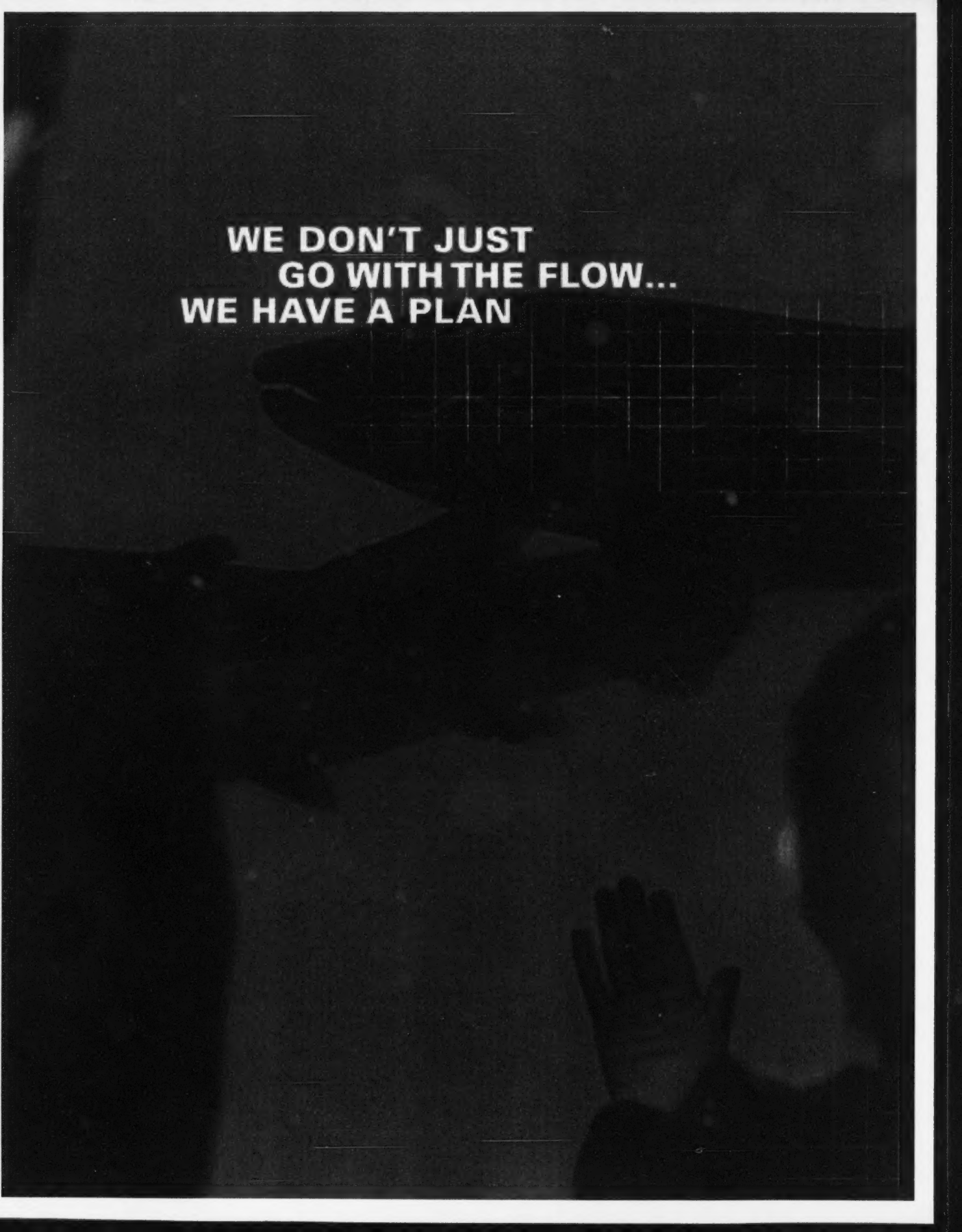
Yukon Energy believes that safety is everyone's responsibility, from senior management right down to front line workers. We stress the importance of managers and supervisors doing regular work observations and coaching staff in carrying out hazard assessments and reviews.

Passport to Safety

2006 was the second year that Yukon Energy has been a part of a national program aimed at eliminating workplace injuries and deaths. The Passport to Safety Program supports and encourages education and workplace-specific safety training for all employees. It offers an on-line test to help make people aware of their rights and responsibilities regarding health and safety, and therefore better prepares them to keep safe while at work.

Yukon Energy is promoting this program during the hiring process, and completion of the on-line test is an asset to people applying for a job at our company.

**WE DON'T JUST
GO WITH THE FLOW...
WE HAVE A PLAN**



PROTECTING OUR ENVIRONMENT

Greenhouse Gas Emission Reductions

The Yukon continues to benefit environmentally from the construction of the Mayo-Dawson transmission line. Since its completion in 2003, it has supplied residents of Dawson with clean hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced greenhouse gas emissions by 10,000 tonnes a year.

If the Carmacks-Stewart transmission line receives approval and is built, it will allow the Minto mine to use hydro electricity instead of diesel (displacing at least 23,000 tonnes of harmful emissions per year) and it will allow the community of Pelly Crossing to switch from diesel to hydro, resulting in a further reduction in greenhouse gas emissions of 1,400 tonnes annually.

Ducks Unlimited

2006 was the fourth year of a five-year initiative with Ducks Unlimited Canada. The purpose of the partnership is to work towards achieving sustainable energy development and energy self-sufficiency for the Yukon while sustaining the health of Yukon waters and associated wetlands and habitat. Yukon Energy and our parent Yukon Development Corporation each contribute \$25,000 annually for research and monitoring, public education, environmental stewardship and industry liaison.

Whitehorse Rapids Fishway

The Whitehorse Fishway, built at the same time as the dam (1958) to help migrating salmon bypass the dam to reach their spawning grounds, had another successful season this year. The fishway is owned by Yukon Energy, operated by the Yukon Fish and Game Association and receives some financial support from the Yukon government's Department of the Environment. It is one of the Yukon's most popular tourist attractions, with almost 30,000 visitors coming to view the salmon each summer.

Each year, Yukon Energy makes improvements to the facility. 2006 upgrades included more new interpretive panels and displays, and the addition of an underwater web cam. The camera allows computer users to view, in real time, the chinook salmon traveling the length of the fishladder. Once again this year, First Nation elders were on hand twice a week in our interpretive tent to answer questions from the public.

In 2006 1,720 salmon went through the fish ladder, compared with 2,632 last year.

Whitehorse Rapids Fish Hatchery

The Whitehorse Rapids Fish Hatchery began operating in 1984 to counteract the numbers of migrating Chinook salmon fry being affected by our power plant. In 1996 the hatchery was expanded to accommodate the Yukon government's fresh water fisheries program. Freshwater fish such as arctic char, lake trout, rainbow trout and bull trout are raised to stock pothole lakes in the southern Yukon.

Under a funding agreement with the Yukon government's Department of Environment, Yukon Energy and the government jointly and equally share the operating and maintenance costs of the hatchery, which in 2006 totalled approximately \$174,400. R & D Environmental administers, manages and operates the facility year round by way of a contract with Yukon Energy.

In 2006 the freshwater component of the hatchery reared and released more than 4,500 kokanee salmon, bull trout fry, arctic char, and lake trout juveniles. In addition, close to 2,900 juvenile fish were held at the hatchery for future stocking and/or for the brood stock program.

The chinook salmon component of the Whitehorse Rapids Fish Hatchery released almost 150,000 chinook fry into the upper drainage of the Yukon River above the Whitehorse dam.

Fish Habitat Protection

2006 was the seventh consecutive year of a long-term juvenile whitefish monitoring program at Aishihik Lake. This program was initiated in 1999 with the goal of preserving the lake whitefish population of Aishihik Lake and ensuring that no significant adverse effects to the lake whitefish fishery result from the operation of the Aishihik Hydro generating facility. A management regime is now in place to respond to any significant changes attributable to the hydro operations, at an early enough stage to minimize effects on the fishery.

**OUR COMMUNITY PLAN—
CONNECTED; COMMITTED
TO YUKONERS**



SUPPORTING OUR COMMUNITIES

Canada Winter Games

Yukon Energy is a gold level sponsor of the 2007 Canada Winter Games, set to take place in Whitehorse from February 23 to March 10. It's estimated that 3,500 athletes, coaches and officials will participate, with more than 4,500 volunteers supporting 22 sport and cultural events. These will be the first Canada Games ever held north of 60.

A large portion of Yukon Energy's \$50,000 contribution has gone towards sustainable and energy efficient design for the athletes' facilities.

Financial Contributions to Non-Profit Groups

Yukon Energy continues our tradition of sponsoring the good work of non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than \$64,000 to a variety of community groups in 2006. The list covered everything from sports and recreation, the arts, education, and health and social services.

"Yukon Energy is a long term, loyal sponsor whose contributions over the past few years have assisted our Society to become self sufficient in acquiring our tent venue and related equipment. Thank you Yukon Energy - we truly cannot do what we do without community minded, caring sponsors like you."

—Yukon Sourdough Rendezvous Society

"LINK Dance Foundation's Dancing in the Streets program has been fortunate to receive Yukon Energy Corporation sponsorship since the program began in 2004. Yukon Energy's commitment to fund programs that build community has been consistent with our goals and bolsters our faith that the public is responding to art projects that are in the open and come face to face with everyday life."

—LINK Dance Foundation

"Our annual Young Women Exploring Trades Conference brings 120 grade 8 girls from all around the territory into Whitehorse for one day and gives them a chance to participate in hands-on trades workshops such as carpentry, welding, electrical and plumbing. This event would not be possible without the generous support and contributions from sponsors like Yukon Energy Corporation."

—Yukon Women in Trades and Technology

"The long standing support that Yukon Energy has provided Special Olympics Yukon allows us to provide a full continuum of sport opportunities for Yukoners with intellectual disabilities."

—Special Olympics Yukon

"The support of Yukon Energy has allowed our festival to grow into a major date on the Yukon arts calendar. Through the support of events such as the film festival, Yukon Energy helps expand the cultural/recreational opportunities available to residents of the North, and ultimately contributes to the quality of life we enjoy."

—Dawson City International Short Film Festival

Scholarships

Yukon Energy, in conjunction with our parent Yukon Development Corporation, continued our strong support for Yukon students. In 2006 we provided scholarships worth \$10,000 to six deserving young adults. These scholarships are a significant investment in our communities and symbolize our ongoing belief in the potential of the young people in the territory. As well as offering general scholarships, members of the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation are eligible to be considered for scholarships as part of our Mayo/Dawson Transmission Line Benefits Agreement.

Starting in 2007, Yukon Energy will offer two new scholarships for students entering pre-apprenticeship programs.

"I want to say a big thanks for your monetary support over the past two years. The scholarship money was put towards books, tuition, rent and food, and it helped out a lot. I will always remember the support I received from one of the pioneering corporations of my home town."

—Yukon Energy Scholarship recipient Shawn Sederberg

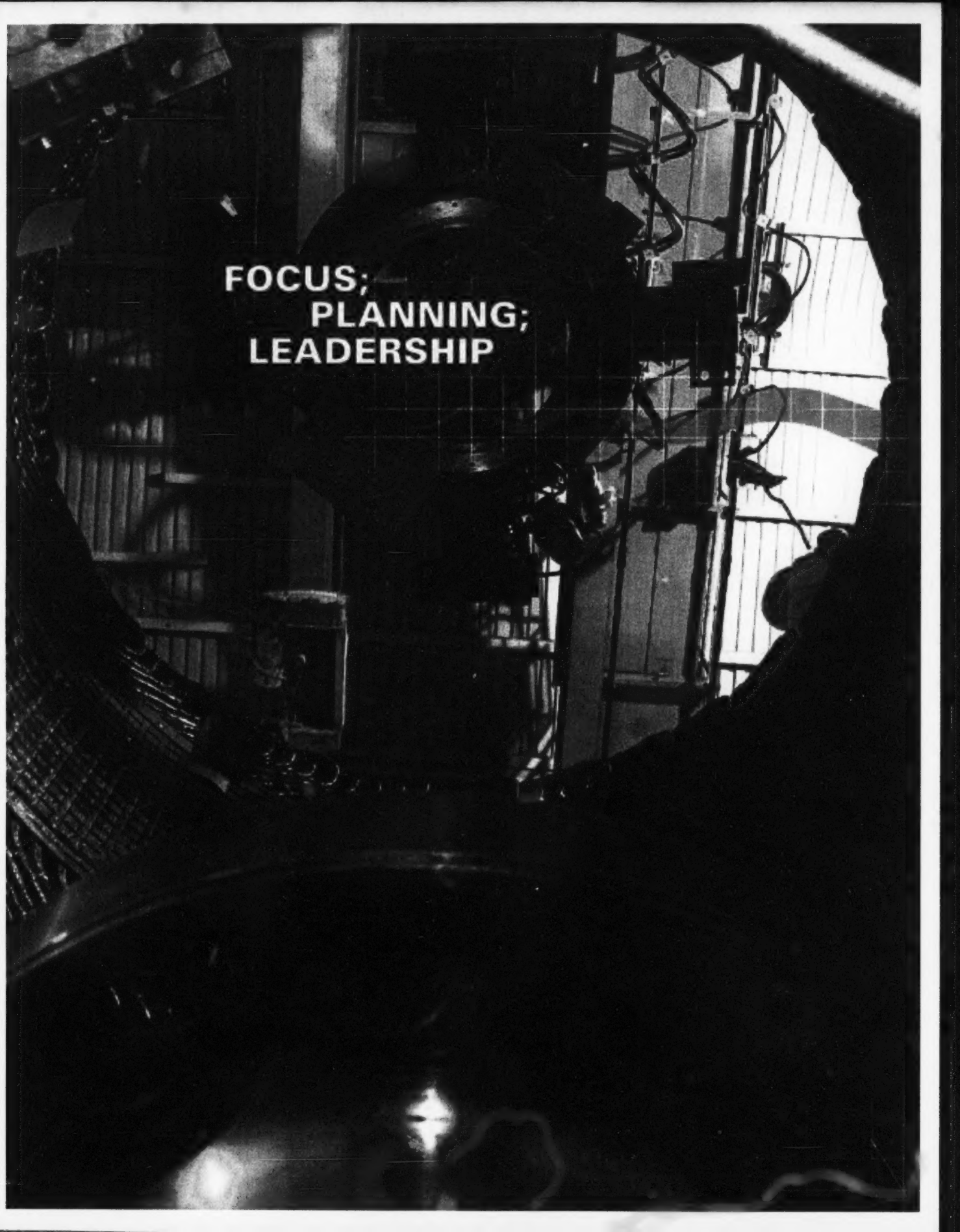
Community Involvement

It is important to Yukon Energy that we participate actively in the communities we serve. In 2006 Yukon Energy took part in student career fairs in Whitehorse and Dawson City. The events drew hundreds of students, parents and members of the general public. We were also one of the companies involved in a Skills Canada information and demonstration day, and we offered instructional support at a Young Women Exploring Trades Conference. The conference gave about 120 grade eight girls hands-on experience in a variety of trades.

Our employees are very giving of themselves in their free time. Many staff members volunteer for a wide variety of community organizations and events.

THE NORTHERN LIGHTS SCHOOL OF DANCE, IN "THE NUTCRACKER": ONE OF THE COMMUNITY EVENTS SUPPORTED BY YUKON ENERGY.

PHOTO: SARAH LEWIS



**FOCUS;
PLANNING;
LEADERSHIP**

BOARD OF DIRECTORS

There were some changes at the board level in 2006, with Paul Birckel and Patrick James replacing outgoing board members Fred Blanchard and Carl Charlie.

We welcome the new members, and thank the out-going members for their wisdom and guidance.

Willard Phelps, Chair

Martin Allen

Paul Birckel

Greg Hakonson

Paul Hunter

Pat Irvin

Patrick James

Barb Joe

SENIOR MANAGEMENT

David Morrison, President and C.E.O.

Les Boisvert, Director, Health, Safety & Environment

Hector Campbell, Director, Resource Planning & Regulatory Affairs

Linda Greer, Director, Human Resources & Information Management

Alex Love, Director, Technical Services

Ed Mollard, Chief Financial Officer

Dave Wray, Director, Operations

MANAGEMENT DISCUSSION AND ANALYSIS

Yukon Energy Corporation is a crown-owned company incorporated under the *Business Corporation Act*. The company is solely owned by Yukon Development Corporation, a Yukon government crown corporation, and is the primary generator and transmitter of electrical energy in the Yukon. Yukon Energy's operations are subject to regulation by the Yukon Utilities Board.

Yukon Energy operates seven generation facilities that form two distinct grids in the Yukon. The grids are not connected to the North American electrical system.

Strategy

Our corporate vision is to be recognized as one of the best managed utilities in Canada, meeting the needs of our customers with sustainable, reliable, cost effective electrical supply, while maintaining a passion for safety and environmental stewardship in all our activities. An implication of this vision is a strong corporate financial position with capacity to invest in the future through expansion of our generation and transmission infrastructure.

Key Performance Drivers

System maintenance is critical to Yukon Energy. As an isolated system, our customers rely on us virtually 100 percent for continuity of service. For this reason, management monitors outage statistics closely to ensure we correct systemic problems as quickly as possible.

Another important indicator for Yukon Energy Corporation is cost control. As a publicly-owned utility, we have a fiduciary duty to our shareholder to manage our resources prudently. Management is constantly reviewing costs to date and budgets to ensure results are tracking as expected and corrective action is taken as needed.

Yukon Energy is run by a small group of about 70 dedicated highly trained employees. With such a small group, and the need for specialized skills at many levels, management of human resources is vital to the company's success. Focus on training and employee retention ensures we have the right people at the right time to accomplish our goals.

The electrical business is, by its nature, a hazardous operation. An uncompromising attitude towards safety is essential to ensuring the well-being of staff and others. All incidents are reviewed by a joint union-management committee and senior management and safety training is a priority budget item each year.

Capabilities

Yukon Energy continues to demonstrate a healthy financial position. The company has a prescribed 60:40 debt to equity structure that is maintained through a system of dividends and debt management with our parent Yukon Development Corporation. This structure ensures affordable electricity rates for our customers at the same time demonstrating a desirable structure for the markets.

In the short term, liquidity is sufficient to meet corporate commitments. These commitments include funding working capital to cover on-going expenses as well as maintaining our assets through our core capital program. In the medium term (two to three years), planned upgrades to plant and systems arising from our 20 year resource plan and the financial draws necessary to construct the Carmacks to Stewart transmission line may put a strain on cash reserves. Mitigating this risk is the commitment from the Yukon government to assist in the funding of the Carmacks to Stewart line.

In terms of non-financial resources, the most significant challenge facing Yukon Energy will be the management of human resources. Attracting and retaining the right mix of technical staff will be an ongoing issue for us at a time when the existing work force is aging and labour markets are extremely tight.

Operating Results

Revenue from sales of power was just over \$27 million, which is 2.6 percent higher than budget and 4.7 percent over last year. These favorable results are largely due to higher than expected growth and colder than expected temperatures. We expect this trend to moderate in 2007 with forecast sales growth in the one percent range.

Overall, operating expenses are down slightly from the prior year and budget. In 2007, Yukon Energy is hopeful we will be able to reach our full staff complement, which will assist in meeting expenditure objectives. In terms of other expenses, interest expense increased, primarily due to increased costs on the flexible term note. This debt instrument requires blended payments based on actual electricity sales on the Whitehorse-Aishihik-Faro grid. The increased sales activity in 2006 resulted in higher than expected interest expense.

The net impact of the 2006 financial results was a regulated return on equity of 10.58 percent compared to our approved return of 9.05 percent. We expect 2007 results will be at or slightly below the approved return.

Capital spending in 2006 was approximately \$9.3 million or 93 percent of 2006 planned expenditures. Restricted human resources had an effect on the ability to execute the entire planned capital program. For 2007, capital expenditures are expected to be roughly the same as 2006. Of note, during 2007, Yukon Energy will spend approximately \$475 thousand to complete a 10-year overhaul of Whitehorse hydro unit #4 (our largest unit). This budget however, excludes the cost of planning and construction activities on the Carmacks to Stewart line, which is being specifically tracked by senior management personnel and the Board of Directors.

Risks

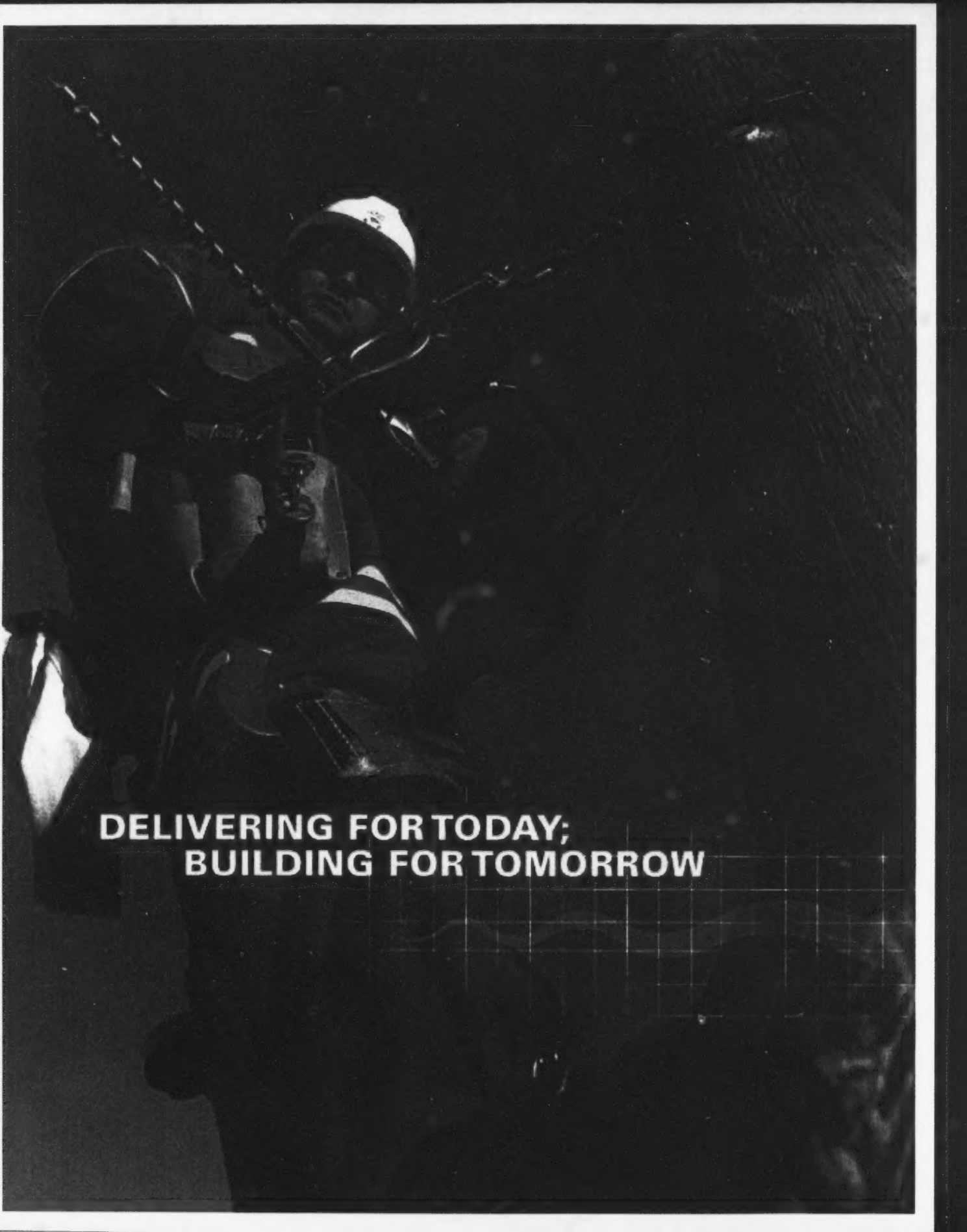
Yukon Energy Corporation faces a number of key risks:

Operational Risk – The risk that we will be unable to meet the needs of our customers when required. This is mitigated by ensuring sufficient resource allocations, both people and dollars are directed at asset maintenance and capital programs as well as analyzing growth patterns to ensure sufficient assets are available to meet demand.

People Risk – The risk that Yukon Energy will not have the right number and mix of technically qualified people to execute corporate plans. Initiatives such as strategic workforce planning, aggressive recruitment, apprenticeship training and competitive pay and benefits packages will moderate this risk.

Financial Risk – The risk that insufficient financial resources will be available to meet the needs of our capital and maintenance programs. Accurate annual cash flow forecasting and comprehensive debt planning with Yukon Energy's parent help to mitigate this risk.

Regulatory Risk – The risk that a regulator will rule against Yukon Energy's plans, thereby preventing the accomplishment of goals. By making plans that are sound and well-supported by industry practice and all stakeholders, this risk is alleviated.



**DELIVERING FOR TODAY;
BUILDING FOR TOMORROW**

FINANCIAL STATEMENTS

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Statement of Income and Retained Earnings	27
Statement of Cash Flows	28
Notes to Financial Statements	29

AUDITOR'S REPORT (in thousands of dollars)

To the Board of Directors of Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations, and the articles and the bylaws of the Corporation.



Auditor General of Canada

Vancouver, Canada

March 23, 2007, except for Note 21 which is as of April 30, 2007



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING (in thousands of dollars)

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgements and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

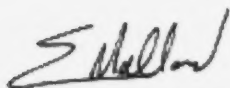
Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

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President and CEO



Chief Financial Officer

Whitehorse, Yukon
March 23, 2007

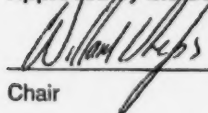
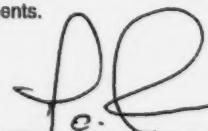
BALANCE SHEET (in thousands of dollars)

As at December 31,	2006	2005
Assets		
Current		
Cash	\$ 5,952	\$ 4,068
Accounts receivable (Notes 4 and 5)	4,226	4,018
Materials and supplies	2,039	2,099
Prepaid expenses	181	217
	12,398	10,402
Deferred uninsured losses (Note 10)	500	(33)
Diesel contingency fund (Notes 3 and 5)	821	791
Property, plant and equipment (Note 6)	157,992	158,016
Deferred charges (Note 7)	9,238	8,199
	\$ 180,949	\$ 177,375
Liabilities		
Current		
Accounts payable (Note 15)	\$ 3,531	\$ 2,896
Current portion of long-term debt (Notes 12 and 15)	3,253	1,454
Regulatory liabilities (Note 8)	1,483	1,775
	8,267	6,125
Long-term pension liability	560	360
Deferred revenue (Note 9)	7,896	8,186
Contributions in aid of construction (Note 11)	12,187	11,799
Regulatory provision for future removal and site restoration costs	5,083	5,618
Diesel contingency fund (Notes 3 and 5)	821	791
Long-term debt (Notes 12 and 15)	86,397	86,114
	121,211	118,993
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	20,738	19,382
	59,738	58,382
	\$ 180,949	\$ 177,375

Contingencies and Commitments (Notes 18 and 19)

The accompanying notes are an integral part of the financial statements.

Approved by the Board


Chair
Director

STATEMENT OF INCOME AND RETAINED EARNINGS (in thousands of dollars)

For the year ended December 31,	2006	2005
Revenue (Note 15)		
Sales of power	\$ 27,528	\$ 26,298
Other	533	591
	28,061	26,889
Operating expenses		
Administration (Note 13)	7,461	7,856
Operations and maintenance (Note 14)	5,375	5,433
Depreciation of property, plant and equipment	4,732	4,709
Amortization of deferred charges and water licensing costs	1,098	889
	18,666	18,887
Income from operations	9,395	8,002
Other income		
Allowance for funds used during construction	54	102
Amortization of capital assistance	215	215
Interest income	220	104
	489	421
Other expenses		
Interest on long-term debt (Note 15)	4,845	4,500
Provision for uninsured losses (Note 10)	100	100
	4,945	4,600
Net income	4,939	3,823
Retained earnings, beginning of year	19,382	18,398
Dividend	(3,583)	(2,839)
Retained earnings, end of year	\$ 20,738	\$ 19,382

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS (in thousands of dollars)

For the year ended December 31,	2006	2005
Cash provided from Operations		
Cash receipts from customers	\$ 27,853	\$ 27,361
Cash paid to employees and suppliers	(14,988)	(15,467)
Interest paid	(4,845)	(4,500)
Interest received	220	104
	8,240	7,498
Cash (used for) provided from Financing		
Repayment of long-term debt	(1,501)	(1,368)
Contributions in aid of construction	733	776
	(768)	(592)
Cash used for Investment		
Additions to property, plant and equipment	(5,588)	(4,609)
Proceeds on disposal of property, plant & equipment	-	52
	(5,588)	(4,557)
Net increase in cash	1,884	2,349
Cash, beginning of year	4,068	1,719
Cash, end of year	\$ 5,952	\$ 4,068

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****1. NATURE OF OPERATIONS**

Yukon Energy Corporation (the "Utility") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-in-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. Interim hearings may be used between rate applications to deal with unforeseen circumstances which could result in the use of interim rates or riders until the next rate application when rates are reviewed and set as final.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

Water Regulation

The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure

The Utility's policy is to maintain a relatively constant capital structure of 60% debt and 40% equity. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility may differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 3. Consequently, the significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies

Property, plant and equipment

Capitalized assets include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Regulatory liabilities

Regulatory liabilities represent amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate-setting process.

Deferred uninsured losses

As a means of self-insurance, the Utility provides for uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Cost of feasibility studies and infrastructure planning are amortized on a straight-line basis over five years.

Regulatory hearing costs are amortized on a straight-line basis over three years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred revenue

Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income at the same rate as the replacement assets.

Diesel contingency fund

The Utility maintains a trust asset and an offsetting trust liability on behalf of ratepayers. The trust is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles**Revenue recognition**

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sale of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies

Diesel fuel, materials and supplies are recorded at average cost. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Depreciation is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Effective January 1, 2006, the Utility retroactively adopted the Canadian Institute of Chartered Accountant's ("CICA") Emerging Issues Abstract regarding conditional asset retirement obligations. This abstract requires an entity to record a liability for an asset retirement obligation where the timing and/or method of settlement are conditional upon the occurrence of a future event that may or may not be within the control of the entity. Adoption of this abstract had no effect on the financial statements for the year ended December 31, 2006.

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of income against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs

Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 14 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006**

Management's estimates and assumptions, especially those affecting the reported amounts of assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2006	2005	Expected remaining recovery/settlement (years)	For 2006: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 7), net book value				
Feasibility studies	\$ 2,999	\$ 1,498	2 to 5	\$ (1,501)
Downsizing costs	71	119	2	48
Hearing costs	311	622	1	311
Dam safety review	49	89	3	40
Diesel contingency fund (Note 5)	821	791	Indeterminate	(30)
	4,251	3,119		(1,132)
Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 8)	1,483	1,775	Indeterminate	(292)
Deferred gain on fire insurance proceeds (Note 9)	7,896	8,166	29	(270)
Deferred uninsured losses (Note 10)	(500)	33	Indeterminate	(533)
Regulatory provision for future removal and site restoration costs	5,083	5,618	Indeterminate	(535)
Diesel contingency fund (Note 5)	821	791	Indeterminate	30
	14,783	16,383		\$ (1,600)
Net impact	\$ (10,532)	\$ (13,264)		\$ (2,732)

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

Regulatory assets

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over five years as approved in the Utility's 1991/92 General Rate Application and re-confirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$1,501,000 higher. (2005 - \$632,000 higher expenses)

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$48,000 lower. (2005 - \$48,000 lower expenses)

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005. The costs consist primarily of legal and consulting costs incurred by the Utility, and reimbursement of YUB and intervenor costs. YUB Order 2005-12 directed the Utility to defer and amortize the approved hearing costs of \$933,000 over 3 years commencing January 1, 2005. In the absence of rate regulation, expenses in 2006 would have been \$311,000 lower. (2005 - \$297,000 higher expenses)

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2006 would have been \$40,000 lower. (2005 - \$63,000 higher expenses)

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as a trust asset and a trust liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income in 2006 would have been higher by \$30,000 from interest earned on the DCF. (2005 - \$19,000 higher net income)

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****Regulatory liabilities****(c) Faro mine dewatering deferral revenue**

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also enables the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2006-4 set the approved 2006 revenue shortfall at \$292,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2006 would have been \$292,000 lower (2005 - \$292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to Board Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's current year net income would have been lower by the amount of the amortization of \$270,000 (2005 - \$270,000 lower).

(e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the provision for uninsured loss, and increase the annual charge from \$50,000 to \$100,000 for the years 2005 to 2007. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2006 would have been higher by \$533,000 (2005 - \$86,000 lower). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the Public Utilities Act, the Utility has maintained a provision for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this provision as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. In the absence of rate regulation, GAAP would have required the Utility to reverse the provision to retained earnings in 2004. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2006 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$535,000 (2005 expenses - \$139,000 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

(g) Fuel price adjustment

OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2006, fuel expenses were deferred and consequently lower by \$56,000 (2005 - \$11,000).

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is charged to accumulated depreciation and deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

YUB Order 2005-12 disallows the Utility from earning a return on any additional costs incurred with respect to the Mayo-Dawson line as a result of pursuing any claims or counter claims against the general contractor and directs the Utility to record any recoveries from the general contractor in an interest-bearing deferred account for future review and disposition by the YUB.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate-setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator which could result in material adjustments to these assets and liabilities.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****4. ACCOUNTS RECEIVABLE**

	2006	2005
Wholesale energy sales	\$ 2,764	\$ 2,666
Retail energy sales	1,109	1,008
Other	353	344
	\$ 4,226	\$ 4,018

Wholesale energy sales are made to Yukon Electrical Company Limited, an unrelated company also regulated by the Yukon Utilities Board. Wholesale power energy in 2006 were approximately \$18,111,000 (2005 - \$16,977,000).

5. DIESEL CONTINGENCY FUND

	2006	2005
Opening balance	\$ 791	\$ 772
Interest	30	19
Closing balance	\$ 821	\$ 791

Diesel Contingency Funds are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2006 was 4.08% (2005 - 2.75%). The fair market value of these investments is equal to the carrying amount.

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	2006 Net book Value	2005 Net book Value
Generation	\$ 137,571	\$ 46,254	\$ 91,317	\$ 92,050
Transmission	54,314	11,070	43,244	43,451
Buildings and other equipment	15,754	5,533	10,221	9,201
Distribution	14,596	5,113	9,483	8,750
Transportation	1,995	605	1,390	1,121
Land and land rights	1,074	-	1,074	1,074
Construction-in-progress	1,263	-	1,263	2,369
	\$ 226,567	\$ 68,575	\$ 157,992	\$ 158,016

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

7. DEFERRED CHARGES

	Cost	Accumulated Amortization	2006 Net book Value	2005 Net book Value
Deferred water licensing costs	\$ 8,352	\$ 2,544	\$ 5,808	\$ 5,871
Feasibility studies and infrastructure planning	3,576	577	2,999	1,498
Regulatory Hearing costs	933	622	311	622
Downsizing costs	334	263	71	119
Dam safety review	213	164	49	89
	\$ 13,408	\$ 4,170	\$ 9,238	\$ 8,199

8. REGULATORY LIABILITIES

	2006	2005
Insurance proceeds held on behalf of ratepayers		
Opening balance	\$ -	\$ 744
Applied to Reserve for uninsured losses (Notes 3 and 10)	-	(744)
Closing balance	-	-
Faro Mine Dewatering Deferral revenue		
Opening balance	1,775	2,067
Applied to revenue shortfall YUB Order 2005-17 (Note 3)	(292)	(292)
Closing balance	1,483	1,775
	\$ 1,483	\$ 1,775

9. DEFERRED REVENUE

	2006	2005
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments of \$3,707,000 (2005 - \$3,438,000))	\$ 7,896	\$ 8,166
Other	-	20
	\$ 7,896	\$ 8,186

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****10. DEFERRED UNINSURED LOSSES**

	2006	2005
Opening balance	\$ 33	\$ (797)
Provision	100	100
Transfer from Regulatory liabilities (Notes 3 and 8)	-	\$ 744
Losses incurred		
Asset replacements	(633)	(14)
Closing balance	\$ (500)	\$ 33

11. CONTRIBUTIONS IN AID OF CONSTRUCTION

			2006	2005
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 8,855	\$ 1,276	\$ 7,579	\$ 7,794
Contributions from customers since 1998	4,087	295	3,792	3,123
Pre-1998 contributions	1,739	923	816	882
	\$ 14,681	\$ 2,494	\$ 12,187	\$ 11,799

The sources of contributions received prior to 1998 were not recorded separately.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****12. LONG-TERM DEBT**

The Utility's long-term debt is summarized as follows:

	2006	2005
Yukon Development Corporation		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ 27,316	\$ 27,867
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	27,314	27,314
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	16,507	16,957
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	-
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	8,442	8,942
	89,650	87,568
Less current portion	3,253	1,454
	\$ 86,397	\$ 86,114

\$40,000,000 Flexible term note

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2006 is 3.01% (2005 - 2.90%).

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006****Mayo - Dawson Transmission Line Financing**

The Utility obtained financing from its parent in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2006, benefits exceeded costs, which resulted in \$1,111,000 in interest paid to Yukon Development Corporation. (In 2005, benefits exceeded costs, which resulted in \$1,140,000 in interest paid to Yukon Development Corporation.)

Unsecured Advances

The Utility declared a dividend to the parent in the amount of \$3,583,000 (2005 - \$2,839,000) and this was loaned back to the Utility at an interest rate of 5.34% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2007	\$	3,253
2008		3,244
2009		3,301
2010		3,357
2011		3,416
Thereafter		73,079
	\$	89,650

Fair value

Fair value at December 31, 2006 of \$105 million (2005 - \$101 million) for all long-term debt was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

13. ADMINISTRATION EXPENSES

	2006	2005
Wages and benefits	\$ 2,767	\$ 2,622
General office	1,175	1,307
Insurance and taxes	1,062	1,156
Regulatory loss	1,039	671
Information systems	435	554
Intercompany services	372	472
Training, recruitment and development	212	401
Material management and contracting	163	327
Environmental	145	190
Board of Directors	91	156
	\$ 7,461	\$ 7,856

14. OPERATIONS AND MAINTENANCE EXPENSES

	2006	2005
Wages and benefits	\$ 3,129	\$ 2,829
Maintenance		
- lines and substations	664	1,058
- hydro, diesel and wind	641	651
- building and vehicle	643	565
Water level measurement	173	193
Fuel	125	137
	\$ 5,375	\$ 5,433

15. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, the following table summarizes the Utility's related party transactions for the year:

	2006	2005
Revenue		
Sales of service to:		
- direct parent company	\$ 216	\$ 244
- wholly-owned subsidiary of parent company	31	147
	\$ 247	\$ 391

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006**

Rate Stabilization Fund subsidy revenue from:			
- direct parent company	\$	432	\$ 358
Expense			
Payment of interest on long-term & short-term debt to:			
- direct parent company	\$	4,164	\$ 3,780
Payment for Financial information system usage to:			
- direct parent company		177	177
Other receipts			
Rural Electrification Support Program funding:			
- direct parent company	\$	86	\$ -
Other payments			
Payment on contribution agreements to:			
- direct parent company	\$	25	\$ 34
- wholly-owned subsidiary of parent company		-	50

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Revenue from related parties is reported as Other revenue on the statement of income. The corresponding cost of providing these services is reported as part of administration expense on the statement of income.

Rate stabilization fund revenues are received from the parent in accordance with terms established by the Government of Yukon, which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are reported on the statement of income as a component of sales of power.

Interest on long-term debt is included on the income statement under Other expenses.

Rural Electrification Support Program funds are received from the parent and are recorded as an offset to the capitalized cost of the respective project.

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2006	2005
Direct parent company		
Accounts receivable	\$ 179	\$ 136
Accounts payable	68	5
Current portion of long-term debt	2,609	904
Long-term debt	75,016	77,722
Wholly-owned subsidiary of parent company		
Accounts receivable	-	40
Accounts payable	-	8

These balances are non-interest bearing and payable on demand except for long-term debt (Note 12).

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

16. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of \$2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2004 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2007. The pension costs and obligations were based on the data used in the January 1, 2004 funding valuation and have been projected to December 31, 2006 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2006. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2006	December 31, 2005
Equities	51.9%	62.4%
Fixed Income Securities	38.3%	34.6%
Short-term Securities and Cash	0.0%	3.0%
Real Estate	9.8%	0.0%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)**December 31, 2006**

	2006	2005
Discount rate-accrued benefit obligation	5.25%	5.25%
Discount rate-benefit costs	6.00%	6.00%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	14 years	14 years
Benefit obligation determined by actuarial valuation	\$ 9,181	\$ 8,269
Fair value of plan assets	7,006	6,144
Plan deficit	\$ 2,175	\$ 2,125
Unrecognised amount:		
- transitional asset	186	203
- net actuarial losses	(1,741)	(1,907)
Accrued benefit liability	\$ 620	\$ 421
Pension expense	\$ 506	\$ 337
Employer contributions	\$ 307	\$ 306
Employee contributions	\$ 115	\$ 110
Benefits paid	\$ 60	\$ 97

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$60,000 (2005 - \$60,000) is included in accounts payable on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2006, these were \$149,000 (2005 - \$122,000).

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$456,000 (2005 - \$428,000).

As at December 31, 2006, the Utility's defined benefit pension plan had 40 members (2005 - 40), and the RRSP had 40 members (2005 - 33).

17. CONTINGENCIES**(a) Mayo to Dawson City transmission line project**

The Utility completed the construction of the Mayo to Dawson City Transmission Line project during 2003. Subsequent to energization of the line, the Utility and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis.

In November 2006, the Utility and the general contractor appeared in Yukon Supreme Court on an application to determine a legal process for settlement. The court has yet to render a decision. To date, the Utility has insufficient information to assess the financial exposure.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

(b) Federal transfer agreement

Most of the assets of the Utility were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are several claims that the Utility has against Canada under the Transfer Agreement. The various claims are described below:

Yukon Energy Corporation claims against Canada

(i) Claim against Canada Arising from Requirement to Obtain a Fish Authorization in Relation to the Aishihik Facility

In January, 2004, the Utility filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Utility in May, 1999 that the Aishihik Facility required an authorization under the *Fisheries Act*. The Utility alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that the Utility had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Utility incurred significant costs and expenses in negotiating and obtaining a *Fisheries Act* authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization. A legal process was initiated in 2006 claiming damages; but the amount of the damages can not be reasonably estimated at this time.

(ii) Soil Contamination at the Whitehorse Facility

The Utility has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred when Canada owned the facility. This contamination was discovered in 1999 and was rectified in 2000. In addition, further testing in 2004 revealed one additional area of contamination caused during Canada's ownership of the site. The Utility's claim of approximately \$260,000 for indemnification arises under the Transfer Agreement. Although it was expected this matter would be resolved in 2006, this did not occur. The Utility has recently had discussions with Canada and it is expected that this matter will be resolved in 2007.

18. COMMITMENTS

(a) Aishihik Water Licence

The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

- a) annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- b) a Heritage Mitigation Plan. The Utility spent approximately \$6,000 in 2006 on heritage projects, expects to spend up to \$30,000 in 2007 on heritage projects, and the balance which has not yet been determined in the future; and
- c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

(b) Financial Information System Lease

The Utility leases a financial information system from the parent. Minimum lease payments for the remaining three years are as follows:

2007	\$	177
2008		177
2009		147
Total		\$ 501

(c) Mayo – Dawson Apprenticeship Benefits Agreement

Under this agreement, the Utility is obligated to annual payments of \$15,000, adjusted by the percentage change in the Canadian consumer price index, to both The Tr'ondek Hwech'in and the First Nation of Nacho Nyak Dun. The agreement came into effect July 1, 2004 and expires June 30, 2024. The costs of meeting these requirements are expensed to Administration in the year to which they relate.

(d) Mayo – Dawson Transmission Line Option Agreement

The Utility has provided an option to two Yukon First Nations to acquire up to a \$14,470,000 "Indirect Interest" in the Mayo-Dawson transmission system project. The option agreement provides for issuance by the Utility of a long-term instrument repayable over forty years, bearing interest equal to the Utility's blended cost of capital, including a component limited to the Utility's realized return on equity. The option expires January 4, 2007. In accordance with the agreement, one First Nation exercised the option to extend this deadline to July 4, 2007.

19. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Utility, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Utility's accounts.

20. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, diesel contingency fund, and accounts payable approximate the carrying amount of these instruments due to the short period to maturity. The fair value of long-term debt is described in Note 12. The Utility also has access to a \$10 million line of credit. The renewal date on the line of credit is October 31, 2009. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2006

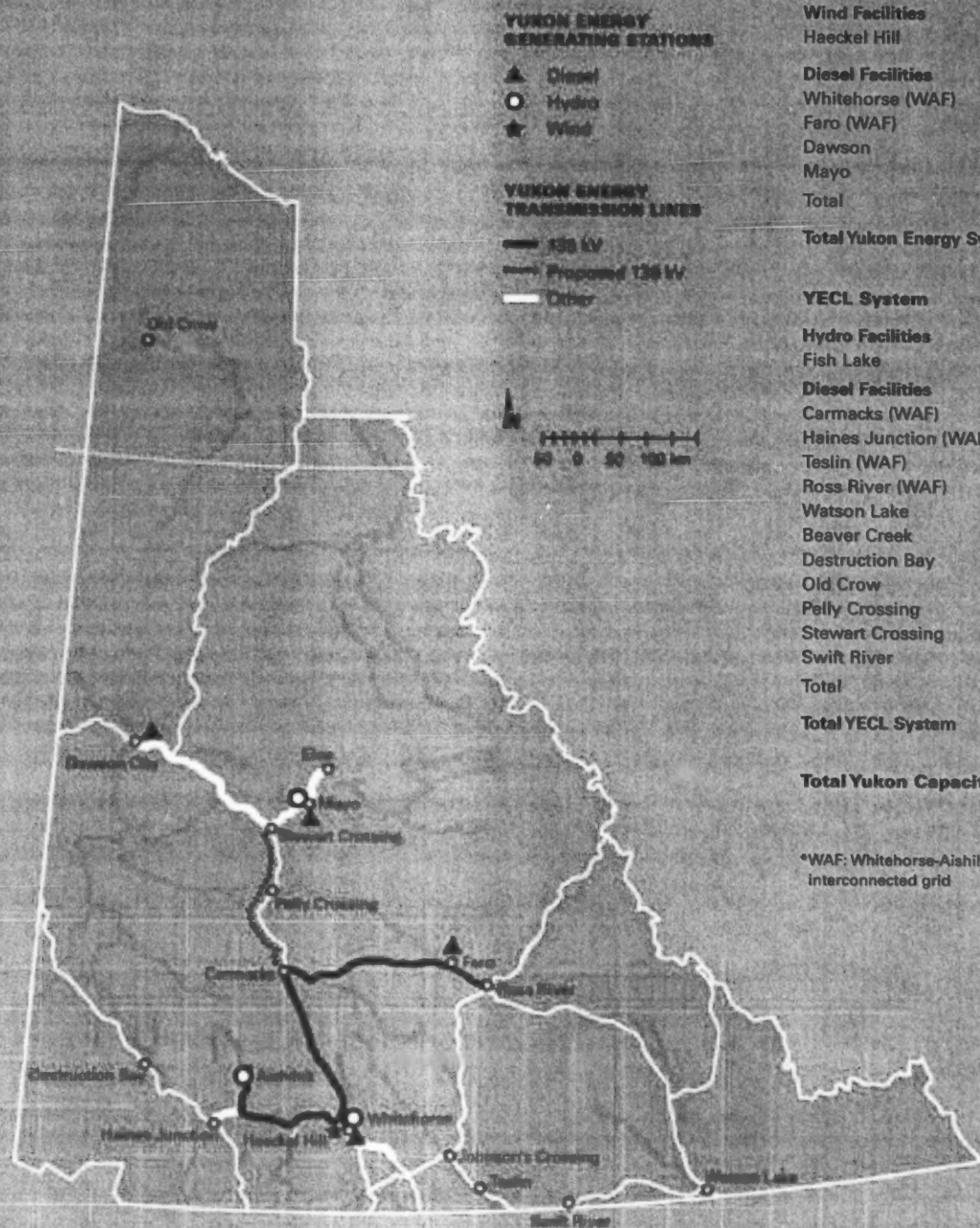
21. SUBSEQUENT EVENT

On February 8, 2007, the Utility signed a Power Purchase Agreement (PPA) with Minto Explorations Limited, an industrial mining customer. Under this agreement, the Utility has agreed to construct a power line to the mine site to deliver electricity from its grid for the mine's operation. The mine is expected to be in operation by mid-2007 and the current estimate of the mine's life is 7.2 years. There is no immediate financial effect on the Corporation from the signing of this agreement. The agreement was conditional on receiving Yukon Utilities Board approval of that agreement by April 30, 2007. On April 30th the YUB denied the Utility's application for approval. In its decision the YUB directed the parties to endeavor to reach a new agreement in principle consistent with the YUB findings. Subject to the parties coming to such an agreement (and that agreement being approved, as and if required, by the YUB) ,and also assuming the Utility receives a number of other regulatory and internal approvals, the line is currently forecast to be constructed and operational by the third quarter of 2008. The cost is expected to be funded by contributions from Minto Explorations Ltd, the Yukon Government and the parent, Yukon Development Corporation.

22. COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform with the current year's presentation.

YUKON ENERGY TRANSMISSION AND GENERATION FACILITIES



Yukon Energy System (in MW)

Hydro Facilities

Whitehorse (WAF) *	40.0
Aishihik	30.0
Mayo	5.0
Total	75.0

Wind Facilities

Haeckel Hill	0.8
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Diesel Facilities

Whitehorse (WAF)	22.6
Faro (WAF)	5.4
Dawson	6.0
Mayo	2.0
Total	36.0

Total Yukon Energy System 112.0

YECL System (in MW)

Hydro Facilities

Fish Lake	1.3
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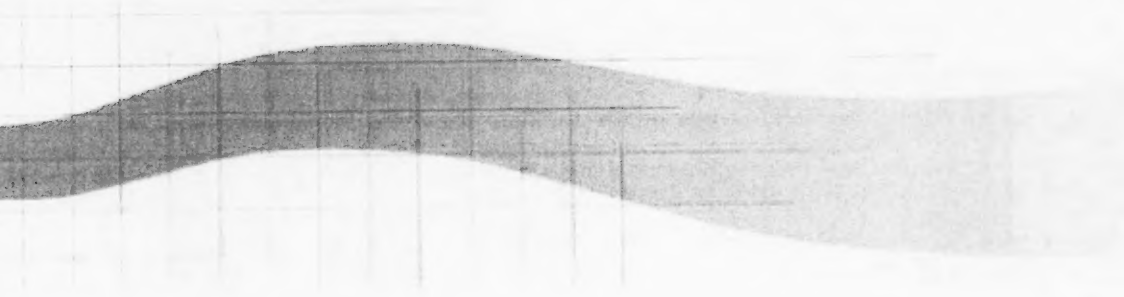
Diesel Facilities

Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7

Total YECL System 15.0

Total Yukon Capacity 129.6

*WAF: Whitehorse-Aishihik-Faro
interconnected grid



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